

STONE COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2010

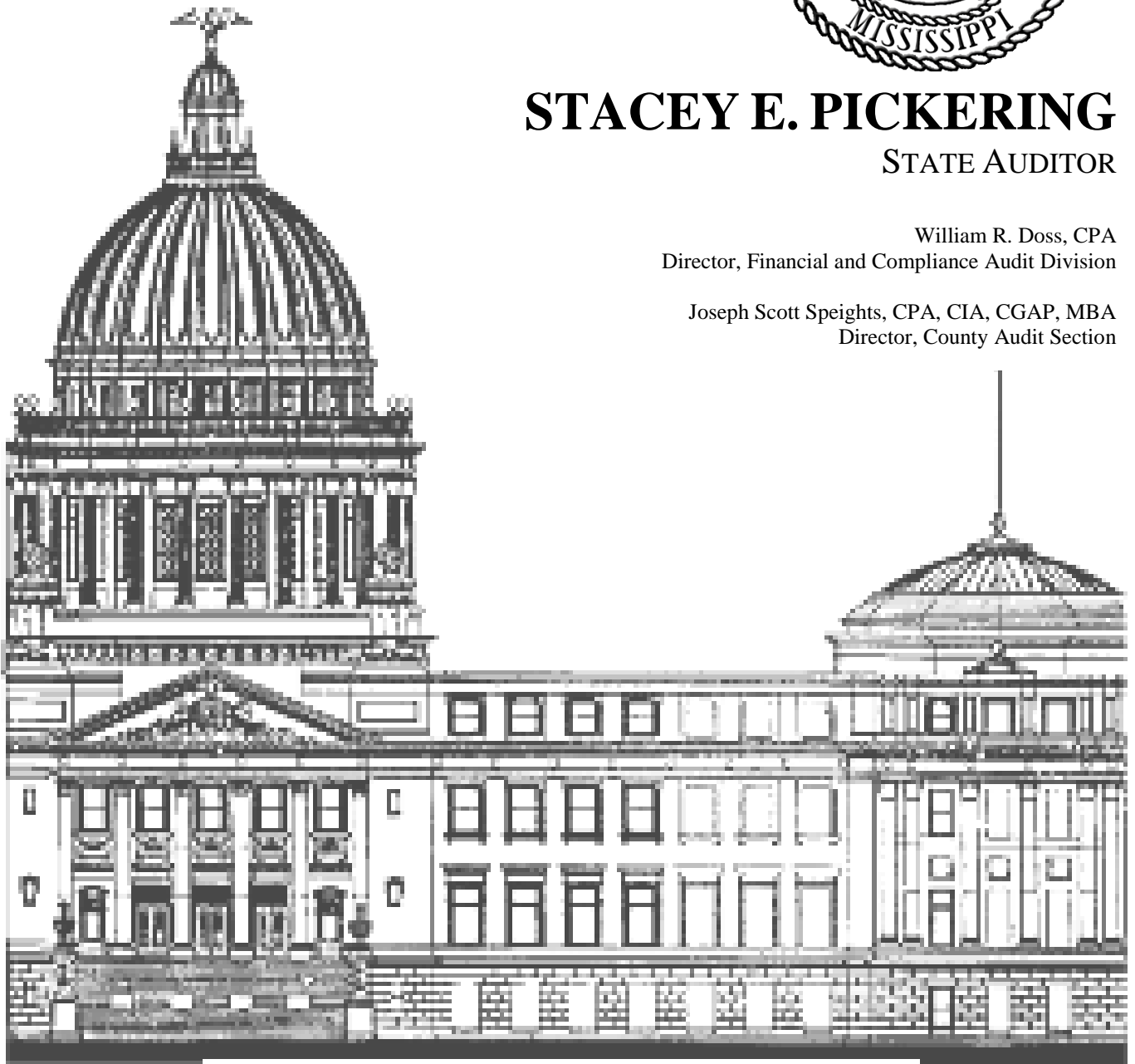


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

March 21, 2012

Members of the Board of Supervisors
Stone County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2010 financial and compliance audit report for Stone County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Stone County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Stone County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

STONE COUNTY
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STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit is not reasonably determinable.

As discussed in Note 14 to the financial statements, the county has not recorded a liability for other postemployment benefits in the governmental activities, the business-type activities and the Correctional Facility Fund and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets and change the expenses of the governmental activities, the business-type activities and the Correctional Facility Fund. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities, the business-type activities and the Correctional Facility Fund is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of Stone County, Mississippi, as of September 30, 2010, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the matter discussed in the fourth paragraph, the financial statements referred to previously present fairly, in conformity with accounting principles generally accepted in the United State of America, the financial position of the governmental activities, the business-type activities and the Correctional Facility Fund of Stone County, Mississippi, as of September 30, 2010, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the General Fund, the Road and Bridge Fund and the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are applicable to the county for the fiscal year ending September 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Stone County, Mississippi, has not presented Management's Discussion and Analysis and the Schedule of Funding Progress – Other Postemployment Benefits that are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stone County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Will R. Doss". The signature is written in a cursive, flowing style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 21, 2012

STONE COUNTY

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STONE COUNTY

FINANCIAL STATEMENTS

STONE COUNTY

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STONE COUNTY
Statement of Net Assets
September 30, 2010

Exhibit 1

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash	\$ 458,408	184,168	642,576
Restricted assets - investments		2,980,134	2,980,134
Property tax receivable	4,796,133		4,796,133
Fines receivable (net of allowance for uncollectibles of \$465,599)	239,127		239,127
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	656,039	479,208	1,135,247
Other receivables	663		663
Internal balances	(20,661)	20,661	0
Deferred charge - bond issuance costs		181,181	181,181
Capital assets:			
Land and construction in progress	1,455,385	12,957	1,468,342
Other capital assets, net	7,578,800	4,742,738	12,321,538
Total Assets	<u>15,163,894</u>	<u>8,601,047</u>	<u>23,764,941</u>
LIABILITIES			
Claims payable	\$ 395,531	79,376	474,907
Intergovernmental payables	160,757		160,757
Short-term notes	850,150		850,150
Accrued interest payable	4,272	58,954	63,226
Deferred revenue	4,796,133		4,796,133
Other payables	35,896		35,896
Long-term liabilities			
Due within one year:			
Capital debt	853,419	396,577	1,249,996
Due in more than one year:			
Capital debt	2,485,016	3,659,420	6,144,436
Non-capital debt	125,299	60,291	185,590
Total Liabilities	<u>9,706,473</u>	<u>4,254,618</u>	<u>13,961,091</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,695,750	699,698	6,395,448
Restricted:			
Expendable:			
General government	19,344		19,344
Debt service		804,171	804,171
Public safety	247,605	2,842,560	3,090,165
Public works	104,604		104,604
Culture and recreation	15,514		15,514
Economic development	27,183		27,183
Unemployment compensation	36,577		36,577
Unrestricted	(689,156)		(689,156)
Total Net Assets	<u>\$ 5,457,421</u>	<u>4,346,429</u>	<u>9,803,850</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2010

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	Total
					Governmental Activities	Activities	
Primary government:							
Governmental activities:							
General government	\$ 3,155,103	739,636		2,931	(2,412,536)		(2,412,536)
Public safety	2,871,147	205,604	341,706	691,879	(1,631,958)		(1,631,958)
Public works	2,901,226		662,254	288,999	(1,949,973)		(1,949,973)
Health and welfare	204,129		54,923		(149,206)		(149,206)
Culture and recreation	205,719			435,993	230,274		230,274
Education	103,639		103,639		0		0
Conservation of natural resources	50,215				(50,215)		(50,215)
Economic development and assistance	109,128		68,704	110,924	70,500		70,500
Interest on long-term debt	111,019				(111,019)		(111,019)
Total Governmental Activities	<u>9,711,325</u>	<u>945,240</u>	<u>1,231,226</u>	<u>1,530,726</u>	<u>(6,004,133)</u>		<u>(6,004,133)</u>
Business-type activities:							
Correctional facility	<u>3,539,315</u>	<u>3,575,351</u>				36,036	36,036
Total Business-type Activities	<u>3,539,315</u>	<u>3,575,351</u>				<u>36,036</u>	<u>36,036</u>
Total Primary Government	<u>\$ 13,250,640</u>	<u>4,520,591</u>	<u>1,231,226</u>	<u>1,530,726</u>	<u>(6,004,133)</u>	<u>36,036</u>	<u>(5,968,097)</u>
General revenues:							
Property taxes					\$ 5,335,133		5,335,133
Road & bridge privilege taxes					196,345		196,345
Grants and contributions not restricted to specific programs					250,489		250,489
Unrestricted interest income					13,035	798	13,833
Miscellaneous					339,602	12,654	352,256
Total General Revenues					<u>6,134,604</u>	<u>13,452</u>	<u>6,148,056</u>
Changes in Net Assets					<u>130,471</u>	<u>49,488</u>	<u>179,959</u>
Net Assets - Beginning, as previously reported					5,353,957	4,252,582	9,606,539
Prior period adjustments					(27,007)	44,359	17,352
Net Assets - Beginning, as restated					<u>5,326,950</u>	<u>4,296,941</u>	<u>9,623,891</u>
Net Assets - Ending					<u>\$ 5,457,421</u>	<u>4,346,429</u>	<u>9,803,850</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2010

Exhibit 3

	Major Funds			
	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 290,240		168,168	458,408
Property tax receivable	3,330,088	242,104	1,223,941	4,796,133
Fines receivable (net of allowance for uncollectibles of \$465,599)	239,127			239,127
Loans receivable	22,439			22,439
Allowance for uncollectible accounts	(22,439)			(22,439)
Intergovernmental receivables	372,063		283,976	656,039
Other receivables	663			663
Due from other funds		121,237	464,909	586,146
Advances to other funds	4,944		3,456	8,400
Total Assets	\$ 4,237,125	363,341	2,144,450	6,744,916
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 183,479	34,434	177,618	395,531
Intergovernmental payables	149,624			149,624
Due to other funds	415,417	4,515	175,937	595,869
Short-term notes	850,150			850,150
Advances from other funds	22,071		8,400	30,471
Deferred revenue	3,569,215	242,104	1,223,941	5,035,260
Other payables	35,896			35,896
Total Liabilities	5,225,852	281,053	1,585,896	7,092,801
Fund balances:				
Reserved for:				
Advances	4,944		3,456	8,400
Unemployment compensation			36,577	36,577
Unreserved - undesignated, reported in:				
General Fund	(993,671)			(993,671)
Special Revenue Funds		82,288	531,333	613,621
Capital Project Funds			(12,812)	(12,812)
Total Fund Balances	(988,727)	82,288	558,554	(347,885)
Total Liabilities and Fund Balances	\$ 4,237,125	363,341	2,144,450	6,744,916

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2010

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ (347,885)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$4,965,907.	9,034,185
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	239,127
Long-term liabilities are not due and payable in the current period and, therefore, is not reported in the funds.	(3,463,734)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(4,272)</u>
Total Net Assets - Governmental Activities	\$ <u><u>5,457,421</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2010

	Major Funds			
	General	Road and	Other	Total
	Fund	Bridge	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 3,911,058	490,063	934,012	5,335,133
Road and bridge privilege taxes		196,345		196,345
Licenses, commissions and other revenue	259,703		9,499	269,202
Fines and forfeitures	435,581		18,328	453,909
Intergovernmental revenues	721,375	764,815	1,526,251	3,012,441
Charges for services	164,284			164,284
Interest income	4,666	1,539	6,830	13,035
Miscellaneous revenues	118,444	53,107	121,468	293,019
Total Revenues	5,615,111	1,505,869	2,616,388	9,737,368
EXPENDITURES				
Current:				
General government	2,934,685		164,548	3,099,233
Public safety	2,267,974		1,280,746	3,548,720
Public works	2,000	1,897,348	1,333,498	3,232,846
Health and welfare	175,629			175,629
Culture and recreation	171,339		443,663	615,002
Education	103,639			103,639
Conservation of natural resources	50,215			50,215
Economic development and assistance	8,159		100,969	109,128
Debt service:				
Principal	206,774	123,162	655,196	985,132
Interest	22,986	6,886	81,705	111,577
Total Expenditures	5,943,400	2,027,396	4,060,325	12,031,121
Excess of Revenues over (under) Expenditures	(328,289)	(521,527)	(1,443,937)	(2,293,753)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	5,306	548,010	866,578	1,419,894
Proceeds from sale of capital assets			192,873	192,873
Transfers in	60,358	17,433	500,648	578,439
Transfers out	(259,449)	(186,307)	(132,683)	(578,439)
Total Other Financing Sources and Uses	(193,785)	379,136	1,427,416	1,612,767
Net Changes in Fund Balances	(522,074)	(142,391)	(16,521)	(680,986)
Fund Balances - Beginning, as previously reported	(599,847)	224,679	505,644	130,476
Prior period adjustments	133,194		69,431	202,625
Fund Balances - Beginning, as restated	(466,653)	224,679	575,075	333,101
Fund Balances - Ending	\$ (988,727)	82,288	558,554	(347,885)

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2010

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (680,986)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$2,187,248 exceeded depreciation of \$727,861 in the current period.	1,459,387
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$93,579 and the proceeds from the sale of \$192,873 in the current period.	(286,452)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	57,845
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$1,419,894 exceeded debt repayments of \$985,132.	(434,762)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The decrease in compensated absences payable	14,881
The decrease in accrued interest payable	<u>558</u>
Change in Net Assets of Governmental Activities	\$ <u><u>130,471</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2010

Exhibit 5

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
ASSETS	
Current assets:	
Cash	\$ 184,168
Restricted assets - investments	2,980,134
Intergovernmental receivables	479,208
Advances to other funds	22,071
Total Current Assets	<u>3,665,581</u>
Noncurrent assets:	
Deferred charges - bond issuance costs	181,181
Capital assets:	
Land	12,957
Other capital assets, net	<u>4,742,738</u>
Total Noncurrent Assets	<u>4,936,876</u>
Total Assets	<u>8,602,457</u>
LIABILITIES	
Current liabilities:	
Claims payable	79,376
Due to other funds	1,410
Accrued interest payable	58,954
Capital debt:	
Capital leases payable	31,577
Other long-term liabilities	<u>365,000</u>
Total Current Liabilities	<u>536,317</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	43,980
Other long-term liabilities	3,615,440
Non-capital debt:	
Compensated absences payable	<u>60,291</u>
Total Noncurrent Liabilities	<u>3,719,711</u>
NET ASSETS	
Invested in capital assets, net of related debt	699,698
Restricted for:	
Debt service	804,171
Public safety	<u>2,842,560</u>
Total Net Assets	<u>\$ 4,346,429</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Operating Revenues	
Charges for services	\$ 3,575,351
Miscellaneous	12,654
Total Operating Revenues	<u>3,588,005</u>
Operating Expenses	
Personal services	2,003,417
Contractual services	571,660
Materials and supplies	628,779
Depreciation expense	156,325
Total Operating Expenses	<u>3,360,181</u>
Operating Income (Loss)	<u>227,824</u>
Nonoperating Revenues (Expenses)	
Interest income	798
Interest expense	(157,030)
Loss on disposal of assets	(1,973)
Amortization of deferred charges - bond issuance costs	(20,131)
Net Nonoperating Revenue (Expenses)	<u>(178,336)</u>
Net Income (Loss)	<u>49,488</u>
Changes in Net Assets	<u>49,488</u>
Net Assets - Beginning, as previously reported	4,252,582
Prior period adjustment	44,359
Net Assets - Beginning, as restated	<u>4,296,941</u>
Net Assets - Ending	<u>\$ 4,346,429</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2010

Exhibit 7

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,701,171
Payments to suppliers	(1,175,843)
Payments to employees	(2,001,156)
Other miscellaneous cash receipts	12,654
Net Cash Provided (Used) by Operating Activities	536,826
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(247,280)
Principal paid on long-term debt	(63,260)
Interest paid on debt	(87,569)
Net Cash Provided (Used) by Capital and Related Financing Activities	(398,109)
Cash Flows From Investing Activities	
Interest on deposits	798
Net Cash Provided (Used) by Investing Activities	798
Net Increase (Decrease) in Cash and Cash Equivalents	139,515
Cash and Cash Equivalents at Beginning of Year	2,980,428
Adjustment to Beginning of Year Cash Due to Prior Year Error	44,359
Cash and Cash Equivalents at End of Year	\$ 3,164,302
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 227,824
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	156,325
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	125,820
Increase (decrease) in claims payable	24,596
Increase (decrease) in compensated absences liability	2,261
Total Adjustments	309,002
Net Cash Provided (Used) by Operating Activities	\$ 536,826
Noncash Capital Financing Activity:	
Stone County lease purchased mobile equipment for \$48,250 for 3 years at 3.26% interest. Principal payments of \$3,843 were made on the lease during the year.	
Stone County lease purchased mobile equipment for \$24,480 for 3 years at 3.49% interest. Principal payments of \$1,294 were made on the lease during the year.	

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2010

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 33,934
Due from other funds	<u>11,812</u>
Total Assets	<u>\$ 45,746</u>
LIABILITIES	
Intergovernmental payables	\$ 45,067
Due to other funds	<u>679</u>
Total Liabilities	<u>\$ 45,746</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Stone County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Stone County to present these financial statements on the primary government and its component unit which has a significant operational or financial relationship with the county.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Stone County Recreation Association

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the county.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Enterprise Fund and business-type activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Road and Bridge Fund - This fund is used to account for monies from specific revenue sources that are restricted for road and bridge maintenance.

The county reports the following major Enterprise Fund:

Correctional Facility Fund - This fund is used to account for monies from inmate housing agreement income with the Mississippi Department of Corrections for housing state prisoners. Additionally, the county reports the following fund types:

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service Funds – These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. Certain resources and revenues associated with the county's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue" fund is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of the trust agreement. The "depreciation and operating reserve" fund is used to pay the costs of major repairs and replacements to the correctional facility the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The "excess revenue" fund is used to pay the costs of major repairs and replacements to the correctional facility as well as to pay operating and maintenance expense when other funds are insufficient to pay these expenses within established limitations. The "debt service reserve" fund is used to report resources set aside to subsidize potential deficiencies from the county's operation that could adversely affect debt service payments. The "general" account is used to accumulate funds to pay the principal and interest payments due on the county's enterprise fund revenue bonds. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. The extent to which capital assets costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Stone County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

N. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Changes in Accounting Standards.

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions* are applicable to the county for the fiscal year ending September 30, 2010. See Note 14 for additional information related to other postemployment benefits offered by the county.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(3) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities – Governmental Activities.

Explanation	Amount
To correct prior year errors in capital assets, net.	\$ (238,908)
To correct prior year error in long-term debt.	9,276
To correct prior year errors in intergovernmental receivables.	205,699
To correct error in fund balance recorded by the county.	(3,074)
Total prior period adjustments	\$ (27,007)

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Explanation	Amount
To correct prior year errors in intergovernmental receivables.	\$ 205,699
To correct error in fund balance recorded by the county.	(3,074)
Total prior period adjustments	\$ 202,625

Exhibit 2 – Statement of Activities – Business-type activities.

Exhibit 6 - Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.

Explanation	Amount
To correct prior year error in cash.	\$ 44,359

(4) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2010, was \$676,510, and the bank balance was \$902,440. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Investments:

As provided in Section 91-13-8, Miss. Code Ann. (1972), the following investments of the county are handled through a trust indenture between the county and the trustee related to the operations of the Stone County Regional Correctional Facility.

Investments balances at September 30, 2010, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
SEI Daily Income Trust Mutual Fund	Less than one year	\$ 2,980,134	AAA

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972) limits the maturity period of any investment to no more than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. These investments are uninsured, unregistered and are not backed by the full faith and credit of the federal government.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2010:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge	General	\$ 121,237
Other Governmental Funds	General	282,368
Other Governmental Funds	Road and Bridge	4,515
Other Governmental Funds	Correctional Facility	1,410
Other Governmental Funds	Other Governmental Funds	175,937
Other Governmental Funds	Agency Funds	679
Agency Funds	General	11,812
Total		\$ 597,958

The majority of the receivables represent amounts received from various funds to cover deficit cash balances. All other receivables represent the tax revenue collected but not settled until October, 2010. All interfund balances are expected to be repaid within one year from the date of the financial statements.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 4,944
Other Governmental Funds	Other Governmental Funds	3,456
Correctional Facility	General	22,071
Total		\$ 30,471

The amount payable to the Correctional Facility Fund represents the correction of a prior year's error in the posting of revenue. The amounts payable to the General Fund and Other Governmental Funds represent the correction of prior year's errors in the posting of principal payments to incorrect funds. These amounts are expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 60,358
Road and Bridge Fund	General Fund	5,738
Road and Bridge Fund	Other Governmental Funds	11,695
Other Governmental Funds	General Fund	253,711
Other Governmental Funds	Road and Bridge Fund	186,307
Other Governmental Funds	Other Governmental Funds	60,630
Total		\$ 578,439

The principal purposes of interfund transfers were to provide funds for principal and interest payments on the General Obligation Bonds, Series 1993, to provide grant matches and to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2010, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 57,915
Stone County School District – over-settlement of homestead exemption	294,771
Refund due from state	14,783
State and community highway safety grant	19,377
Community development block grants	138,524
Hazard mitigation grants	130,669
Total Governmental Activities	\$ 656,039
Business-type Activities:	
Housing prisoner reimbursement	\$ 479,208

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(7) Restricted Assets.

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue fund	\$	176,265
Depreciation and operating reserve fund		466,823
Excess revenue fund		1,532,747
Debt service reserve fund		410,514
Mandatory redemption fund		128
General account		<u>393,657</u>
Total restricted assets	\$	<u><u>2,980,134</u></u>

(8) Loans Receivable.

Loans receivable balances at September 30, 2010, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Less: Allowance for doubtful accounts*				<u>(22,439)</u>
Total				\$ <u><u>0</u></u>

* The Emergency Medical Services District loan receivable was determined to be uncollectible in fiscal year 1997.

(9) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2010:

Governmental activities:

	Balance Oct. 1, 2009	Additions	Deletions	Adjustments*	Balance Sept. 30, 2010
<u>Non-depreciable capital assets:</u>					
Land	\$ 459,256				459,256
Construction in progress	154,671	869,641		(28,183)	996,129
Total non-depreciable capital assets	<u>613,927</u>	<u>869,641</u>	<u>0</u>	<u>(28,183)</u>	<u>1,455,385</u>
<u>Depreciable capital assets:</u>					
Infrastructure	66,890				66,890
Buildings	6,335,021	153,327			6,488,348
Mobile equipment	3,741,304	252,548	495,550	49,206	3,547,508
Furniture and equipment	537,376	39,883	274,270		302,989
Leased property under capital leases	1,674,442	871,849	318,022	(89,297)	2,138,972
Total depreciable capital assets	<u>12,355,033</u>	<u>1,317,607</u>	<u>1,087,842</u>	<u>(40,091)</u>	<u>12,544,707</u>

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

	Balance Oct. 1, 2009	Additions	Deletions	Adjustments*	Balance Sept. 30, 2010
Less accumulated depreciation for:					
Infrastructure	2,412	402			2,814
Buildings	1,174,793	122,028		28,500	1,325,321
Mobile equipment	2,605,392	230,153	437,218	24,405	2,422,732
Furniture and equipment	297,814	49,188	192,440	29,948	184,510
Leased property under capital leases	788,391	326,090	171,732	87,781	1,030,530
Total accumulated depreciation	4,868,802	727,861	801,390	170,634	4,965,907
Total depreciable capital assets, net	7,486,231	589,746	286,452	(210,725)	7,578,800
Governmental activities capital assets, net	\$ 8,100,158	1,459,387	286,452	(238,908)	9,034,185
Business-type activities:					
Non-depreciable capital assets:					
Land	\$ 12,957				12,957
Total non-depreciable capital assets	12,957	0	0	0	12,957
Depreciable capital assets:					
Buildings	5,399,822	240,357			5,640,179
Mobile equipment	38,867		19,728	74,451	93,590
Furniture and equipment	102,771	6,923			109,694
Leased property under capital leases	114,101	72,730		(74,451)	112,380
Total depreciable capital assets	5,655,561	320,010	19,728	0	5,955,843
Less accumulated depreciation for:					
Buildings	916,942	112,807			1,029,749
Mobile equipment	34,981	13,404	17,755	40,212	70,842
Furniture and equipment	68,126	9,883			78,009
Leased property under capital leases	54,486	20,231		(40,212)	34,505
Total accumulated depreciation	1,074,535	156,325	17,755	0	1,213,105
Total depreciable capital assets, net	4,581,026	163,685	1,973	0	4,742,738
Business-type activities capital assets, net	\$ 4,593,983	163,685	1,973	0	4,755,695

* Adjustments are to correct errors in the capital asset records and to reflect certain routine reclassifications of paid off capital leases.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 122,149
Public safety	312,310
Public works	250,154
Health and welfare	28,500
Culture and recreation	14,748
Total governmental activities depreciation expense	\$ 727,861
Business-type activities:	
Correctional facility	\$ 156,325

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Commitments with respect to unfinished capital projects at September 30, 2010, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Perkinston Elementary School Storm Shelter	\$ 1,344,500	December, 2011
Stone Elementary School Storm Shelter	1,368,000	December, 2011
Stone Middle School Storm Shelter	1,041,490	December, 2011
Stone High School Storm Shelter	890,400	February, 2012
Project Road Storm Shelter	457,000	November, 2011
Stone County Library Additions and Renovations	48,556	December, 2010
Stone County EOC Office	337,830	March, 2011

(10) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2010, to January 1, 2011. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

Until September 1, 2009, the county financed its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the county retaining the risk of loss on all claims to which the county was exposed. Premium payments to the pool were determined on an actuarial basis. The county purchased commercial insurance to cover all claims in excess of premium contributions. Claims expenses and liabilities were reported when it was probable that a loss had occurred and the amount of that loss could be reasonably estimated.

The county had no year end liability because the county terminated their participation in the risk pool on September 1, 2009, and a commercial insurance company began providing coverage.

(11) Operating Leases.

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$36,948 for the year ended September 30, 2010. The future minimum lease payments for these leases are as follows:

Year Ending September 30	Amount
2011	\$ 36,948
2012	36,948
2013	36,948
Total Minimum Payments Required	\$ 110,844

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(12) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2010:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 2,089,032	112,380
Furniture and equipment	49,940	
Total	2,138,972	112,380
Less: Accumulated depreciation	(1,030,530)	(34,505)
Leased Property Under Capital Leases	\$ 1,108,442	77,875

The following is a schedule by years of the total payments due as of September 30, 2010:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 476,747	33,517	31,577	2,023
2012	515,632	18,061	24,414	1,097
2013	108,823	6,148	19,566	284
2014	99,727	2,926		
2015	38,358	281		
Total	\$ 1,239,287	60,933	75,557	3,404

(13) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2010:

Description of Debt	Balance Oct. 1, 2009	Additions	Reductions	Adjustments	Balance Sept. 30, 2010
2009 tax anticipation promissory note	\$ 0	600,045	500,000		100,045
2010 tax anticipation promissory note	0	750,105			750,105
Total	\$ 0	1,350,150	500,000	0	850,150

During the month of October, 2009, the county issued \$600,045 of tax anticipation notes with an interest rate of 3.10% and maturity date of April, 2010, in order to alleviate a temporary operating cash flow deficiency. On April 9, 2010, the county renewed the unpaid portion of tax anticipation notes in the amount of \$300,045, therefore, extending the maturity date to October, 2010.

During the month of July, 2010, the county issued \$750,105 of tax anticipation notes with an interest rate of \$2.40% and maturity date of April, 2011, in order to alleviate a temporary operating cash flow deficiency.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(14) Other Postemployment Benefits.

Plan Description

The Stone County Board of Supervisors administers the county's health insurance plan which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The county's health insurance plan may be amended by the Stone County Board of Supervisors. The county purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the county's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the county has not recorded a liability for other postemployment benefits nor has the county reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The county does not issue a publicly available financial report for the Plan.

(15) Long-term Debt.

Debt outstanding as of September 30, 2010, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
General obligation bonds, Series 2003	\$ <u>1,230,000</u>	3.30/3.70%	03-2018
B. Capital Leases:			
IBM Turnkey system	\$ 25,401	3.27%	06-2013
2008 Ford F250 truck	3,637	3.42%	03-2011
Two 2007 Crown Victorias	7,633	3.54%	02-2011
2008 Ford F150 truck	3,331	3.45%	04-2011
Two 2008 Crown Victorias	15,826	3.04%	08-2011
2009 Dodge Charger	11,642	3.24%	12-2011
2009 Nissan Titan	15,191	3.14%	07-2012
2009 Dodge Charger	15,916	3.14%	07-2012
Digital copier	4,438	1.49%	03-2013
2008 Ford F450 truck	1,090	4.36%	10-2010
Two motor graders	70,151	3.24%	12-2011
Holland backhoe and line laser	17,053	3.09%	10-2011
2006 John Deere excavator	47,941	3.20%	12-2011
2009 Durapatcher	36,389	3.11%	12-2012
Six Mack dump trucks	218,939	4.12%	06-2012
Two 2010 Mack garbage trucks	325,646	3.26%	06-2012
2009 Commercial pumper truck	200,500	3.18%	01-2015
2010 Freightliner tanker truck	<u>218,563</u>	3.14%	02-2015
Total Capital Leases	\$ <u><u>1,239,287</u></u>		

STONE COUNTY

Notes to the Financial Statements
For the Year Ended September 30, 2010

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
C. Other Loans:			
Health Department	\$ 164,461	3.80%	09-2013
Economic industrial development promissory note	36,685	4.10%	06-2011
MDA Cap loan	119,284	3.00%	06-2017
Justice Court Law Library addition	48,673	3.25%	08-2013
2009 road paving note	500,045	3.25%	12-2014
Total Other Loans	\$ 869,148		

Business-type activities:

A. Limited Obligation Bonds:			
Correctional Facility	\$ 4,075,000	3.10/4.00%	11-2019
B. Capital Leases:			
Kubota tractor	\$ 7,964	3.45%	03-2011
Two 2010 Dodge Chargers	44,407	3.26%	07-2013
2011 Ford F350 pick-up	23,186	3.49%	07-2013
Total Capital Leases	\$ 75,557		

Pledge of Future Revenues - The county has pledged future revenues for housing inmates, net of specified operating expenses, to repay \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Bonds issued on September 25, 2009. Proceeds from the bonds provided financing for refunding the Urban Renewal Revenue Bonds issued in 1999, which were used for the construction of the Stone County Regional Correctional Facility. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The bonds are payable solely from income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November 1, 2019. Annual principal and interest payments on the bonds are expected to require less than 23 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,836,100. Principal and interest paid for the current year and total inmate housing net revenues were \$114,987 and \$3,575,351, respectively.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2011	\$ 130,000	40,381	246,672	14,766
2012	135,000	36,009	213,660	9,581
2013	145,000	31,334	162,470	5,745
2014	150,000	26,356	125,280	2,100
2015	155,000	21,190	75,708	1,601
2016 – 2020	515,000	28,688	45,358	1,846
Total	\$ 1,230,000	183,958	869,148	35,639

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

Business-type Activities:

Year Ending September 30	Limited Obligation Bonds	
	Principal	Interest
2011	\$ 365,000	135,833
2012	380,000	124,285
2013	390,000	112,350
2014	405,000	100,027
2015	420,000	87,240
2016 – 2020	2,115,000	201,365
Total	\$ 4,075,000	761,100

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2010, the amount of outstanding debt was equal to 1.11% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2010:

	Balance Oct. 1, 2009	Additions	Reductions	Adjustments*	Balance Sept. 30, 2010	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 140,180		14,881		125,299	
General obligation bonds	1,355,000		125,000		1,230,000	130,000
Capital leases	1,003,695	869,849	624,981	(9,276)	1,239,287	476,747
Other loans	554,254	550,045	235,151		869,148	246,672
Total	\$ 3,053,129	1,419,894	1,000,013	(9,276)	3,463,734	853,419
Business-type Activities:						
Compensated absences	\$ 58,030	2,261			60,291	
Limited obligation bonds	4,105,000		30,000		4,075,000	365,000
Less:						
Discount	(27,267)		(2,727)		(24,540)	
Deferred amount on refunding	(77,800)		(7,780)		(70,020)	
Capital leases	37,497	72,730	34,670		75,557	31,577
Total	\$ 4,095,460	74,991	54,163	0	4,116,288	396,577

*To correct prior year error in capital leases.

Compensated absences will be paid from the fund from which the employees' salaries were paid, which are generally the General Fund, Road and Bridge Fund and Correctional Facility Fund.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(16) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2010:

Fund	Deficit Amount
General Fund	\$ 988,727
Justice Court Building Fund	525
Road/Bridge Debt Service Fund	14
Perkinston Elementary Shelter Fund	9,907
Library/E911 Office Fund	1,596
Stone Middle School Shelter Fund	454
Stone High School Shelter Fund	16,884
Project Road Shelter Fund	11,813

(17) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

(18) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$72,564 in fiscal year 2010. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the city and county. By contractual agreement, the county's appropriation to the joint venture was \$2,000 in fiscal year 2010. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

STONE COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2010

(19) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$11,000 for support of the district in fiscal year 2010.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$30,554 for support of the agency in fiscal year 2010.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Counties, and one appointed at large. The county appropriated \$685,066 for maintenance and support of the college in fiscal year 2010.

Stone County Economic Development Partnership is governed by a 15-member board, consisting of the President of the Board of Supervisors; five members appointed by the Board of Supervisors; three members appointed by the City of Wiggins; one member appointed by the Mississippi Gulf Coast Community College; and five members appointed at large by the Partnership. The organization is supported primarily by a sales tax collected by the county and remitted to the Foundation. The amount remitted in the 2010 fiscal year was \$326,831.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the ten members of the board of directors. The county contributed \$23,600 for support of the District in fiscal year 2010.

(20) Defined Benefit Pension Plan.

Plan Description. Stone County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2010, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2010 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2010, 2009 and 2008 were \$526,311, \$479,127 and \$453,798, respectively, equal to the required contributions for each year.

STONE COUNTY

Notes to the Financial Statements
For the Year Ended September 30, 2010

(21) Subsequent Events.

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
4/19/2011	3.706%	\$ 44,200	Capital Lease	Ad Valorem Taxes
4/19/2011	3.706%	22,878	Capital Lease	Ad Valorem Taxes
6/17/2011	3.000%	56,894	Capital Lease	Ad Valorem Taxes
7/8/2011	3.150%	10,800	Capital Lease	Ad Valorem Taxes
7/8/2011	3.150%	8,000	Capital Lease	Ad Valorem Taxes
6/6/2011	4.270%	108,211	Capital Lease	Ad Valorem Taxes
11/4/2011	1.990%	500,000	Tax Anticipation Note	Ad Valorem Taxes
11/16/2011	3.000%	31,940	Capital Lease	Pledged Revenues
12/22/2011	3.000%	38,765	Capital Lease	Pledged Revenues
1/24/2012	3.195%	34,000	Capital Lease	Pledged Revenues
1/24/2012	1.740%	38,175	Grant Anticipation Note*	Federal Grant

*As of 3-21-2012 the amount of \$38,175 has been drawn down on a \$714,000 line of credit.

STONE COUNTY

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STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,193,996	3,620,722	3,620,722	
Licenses, commissions and other revenue	419,555	308,899	308,899	
Fines and forfeitures	457,000	439,300	439,300	
Intergovernmental revenues	1,054,108	665,685	665,685	
Charges for services	165,000	164,284	164,284	
Interest income	26,000	4,531	4,531	
Miscellaneous revenues	148,295	99,109	99,109	
Total Revenues	<u>6,463,954</u>	<u>5,302,530</u>	<u>5,302,530</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	3,105,899	3,046,254	3,046,254	
Public safety	2,784,510	2,219,107	2,219,107	
Public works	3,225	2,000	2,000	
Health and welfare	177,748	166,330	166,330	
Culture and recreation	173,521	164,211	164,211	
Conservation of natural resources	46,768	50,911	50,911	
Economic development and assistance	7,500	7,709	7,709	
Debt service:				
Principal	197,392	707,195	707,195	
Interest	13,181	22,565	22,565	
Total Expenditures	<u>6,509,744</u>	<u>6,386,282</u>	<u>6,386,282</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(45,790)</u>	<u>(1,083,752)</u>	<u>(1,083,752)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets	20,000	1,000	1,000	
Transfers in	98,639	391,089	391,089	
Transfers out	(269,728)	(556,167)	(556,167)	
Other financing sources		1,350,000	1,350,000	
Total Other Financing Sources and Uses	<u>(151,089)</u>	<u>1,185,922</u>	<u>1,185,922</u>	<u>0</u>
Net Change in Fund Balance	(196,879)	102,170	102,170	0
Fund Balances - Beginning	<u>456,879</u>	<u>(465,119)</u>	<u>(465,119)</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 260,000</u>	<u>(362,949)</u>	<u>(362,949)</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Road and Bridge Fund
For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 501,990	486,078	486,078	
Road and bridge privilege taxes	190,000	196,479	196,479	
Licenses, commissions and other revenue	2,500	2,619	2,619	
Intergovernmental revenues	861,000	762,195	762,195	
Interest income	2,000	1,539	1,539	
Miscellaneous revenues		53,107	53,107	
Total Revenues	<u>1,557,490</u>	<u>1,502,017</u>	<u>1,502,017</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	1,384,996	1,826,040	1,826,040	
Debt service:				
Principal	156,324	118,814	118,814	
Interest	18,040	6,718	6,718	
Total Expenditures	<u>1,559,360</u>	<u>1,951,572</u>	<u>1,951,572</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(1,870)</u>	<u>(449,555)</u>	<u>(449,555)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	15,000	500,000	500,000	
Transfers in		17,433	17,433	
Transfers out		(186,308)	(186,308)	
Total Other Financing Sources and Uses	<u>15,000</u>	<u>331,125</u>	<u>331,125</u>	<u>0</u>
Net Change in Fund Balance	13,130	(118,430)	(118,430)	0
Fund Balances - Beginning	<u>331,870</u>	<u>215,671</u>	<u>215,671</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 345,000</u>	<u>97,241</u>	<u>97,241</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY

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STONE COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2010

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	Road and Bridge Fund
Budget (Cash Basis)	\$ 102,170	(118,430)
Increase (Decrease)		
Net adjustments for revenue accruals	(1,334,289)	51,817
Net adjustments for expenditure accruals	710,045	(75,778)
GAAP Basis	<u>\$ (522,074)</u>	<u>(142,391)</u>

STONE COUNTY

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STONE COUNTY

SUPPLEMENTAL INFORMATION

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/ Passed-through the Mississippi State Treasurer's Office Schools and roads - grants to states	10.665	N/A	\$ <u>238,369</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program and non-Entitlement grants in Hawaii *	14.228	R-109-066-01-KCR	881,016
Community development block grants/state's program and non-Entitlement grants in Hawaii *	14.228	R-103-066-01-KP	<u>79,742</u>
Subtotal			<u>960,758</u>
U.S. Department of Housing and Urban Development - Office of Community Planning and Development Economic development initiative - special project, neighborhood initiative and miscellaneous grants (Direct Award)	14.251	N/A	<u>189,830</u>
Total U.S. Department of Housing and Urban Development			<u>1,150,588</u>
U.S. Department of the Interior/ Bureau of Ocean Energy Management, Regulation and Enforcement Passed-through the Mississippi Department of Marine Resources Coastal impact assistance program	15.426	M09AF16101	<u>15,424</u>
U.S. Department of Justice/Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	07HR1661	<u>23,760</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 070 B (66)	<u>21,600</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration/Passed-through the Mississippi Department of Public Safety - Office of Highway Safety State and community highway safety	20.600	10TA1661	<u>67,208</u>
Total U.S. Department of Transportation			<u>88,808</u>

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency			
Hazard mitigation grant	97.039	1604-50	19,352
Hazard mitigation grant	97.039	1604-241	11,841
Hazard mitigation grant	97.039	1604-215	12,531
Hazard mitigation grant	97.039	1604-242	71,236
Hazard mitigation grant	97.039	1604-224	15,710
Hazard mitigation grant	97.039	1604-10-38	4,876
Subtotal			<u>135,546</u>
Emergency management performance grants	97.042	N/A	<u>3,355</u>
Total U.S. Department of Homeland Security			<u>138,901</u>
Total Expenditures of Federal Awards			\$ <u><u>1,655,850</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

* Denotes major federal award program

STONE COUNTY

Reconciliation of Operating Costs of Solid Waste

For the Year Ended September 30, 2010

Operating Expenditures, Cash Basis:

Salaries	\$	165,200
Contractual services		105,263
Expendable Commodities:		
Gasoline and petroleum products		52,411
Repair parts		13,225
Clothing		1,310
Tires		9,441
Supplies		2,658
Solid waste disposal fee		<u>68,232</u>

Solid Waste Cash Basis Operating Expenditures	417,740
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Full Cost Expenses:

Indirect administrative costs	6,372
Depreciation on equipment	61,630
Net effect of other accrued expenses	<u>27,160</u>

Solid Waste Full Cost Operating Expenses	\$ <u><u>512,902</u></u>
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STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the county's basic financial statements and have issued our report thereon dated March 21, 2012. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is also qualified on the governmental activities, business-type activities and Correctional Facility Fund because the county did not record a liability or current year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stone County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-11 and 10-12 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 10-10 to be a significant deficiency.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-4, 10-6 and 10-7.

We also noted certain instances of noncompliance which we have reported to the management of Stone County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated March 21, 2012, included within this document.

Stone County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Stone County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 21, 2012



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors
Stone County, Mississippi

Compliance

We have audited the compliance of Stone County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2010. Stone County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Stone County, Mississippi's management. Our responsibility is to express an opinion on Stone County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stone County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Stone County, Mississippi's compliance with those requirements.

In our opinion, Stone County, Mississippi, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010.

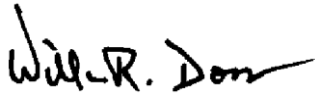
Internal Control Over Compliance

The management of Stone County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A deficiency in a county's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Doss". The signature is written in a cursive, slightly stylized font.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 21, 2012



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Stone County, Mississippi

We have examined Stone County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972), and compliance with the purchasing requirements in accordance with bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2010. The Board of Supervisors of Stone County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Stone County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior year's audit report, deficiencies were noted in the capital assets records:

- a. A digital copier purchased on March 19, 2010 for \$5,306 was not added to inventory.
- b. A 2010 Freightliner tanker truck, was erroneously added to inventory at a cost of \$2,452,312, instead of the correct cost of \$245,232.
- c. A 2011 Ford F350 pickup, was erroneously classified as mobile equipment but should have been classified as a lease purchase.
- d. Some buildings were not being depreciated.
- e. The construction of the E-911 facility was recorded in error in buildings instead of construction in progress. The amount recorded for this facility was also overstated by \$98,418.
- f. The construction in progress for the library was understated by \$21,223.

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval.

The failure to properly maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response

All findings have been corrected.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Stone County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for use in evaluating the central purchasing system and inventory control system of Stone County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 21, 2012

STONE COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2010

Our test results did not identify any purchases from other than the lowest bidder.

STONE COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2010

Schedule 2

Our test results did not identify any emergency purchases.

STONE COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2010

Our test results did not identify any purchases made noncompetitively from a sole source.

STONE COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2010, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated March 21, 2012, on the financial statements of Stone County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

Interfund transfers not approved by the Board of Supervisors.

1. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for all proceedings of the Board of Supervisors. Interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

We will comply with this finding, beginning April 8, 2011.

Unemployment Compensation Fund's cash balance below required amount.

2. Finding

Section 71-5-359(f), Miss. Code Ann. (1972), requires that a balance be maintained in the Unemployment Compensation Fund at an amount not less than two percent (2%) of the first six thousand dollars (\$6,000.00) of covered wages paid during the next preceding year. The cash balance was below the amount required by state statute. At September 30, 2010, the cash balance was \$21,794 and the required amount was \$23,280.

Recommendation

The Board of Supervisors should ensure that an amount is maintained in the Unemployment Compensation Fund at an amount not less than two percent (2%) of the first six thousand dollars (\$6,000.00) of covered wages paid during the next preceding year, as required by law.

Board of Supervisors' Response

This finding has been corrected.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Doss", with a stylized flourish at the end.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 21, 2012

STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

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STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | Business-type activities | Qualified |
| | Aggregate discretely presented component unit | Adverse |
| | General Fund | Unqualified |
| | Road and Bridge Fund | Unqualified |
| | Correctional Facility Fund | Qualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiency identified that is not considered to be a material weakness? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section ____ .510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Community development block grants/state's program, CFDA #14.228 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency – Material Weakness

Financial data for component unit not included in financial statements.

10-1. Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issued financial statements for the financial reporting entity that include the financial data for its component unit. As reported in the prior three years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for inclusion in the county's financial statements.

Board of Supervisors' Response

Management will ask the Stone/Wiggins Recreation Association to forward a copy of their audited financial statements to the county for inclusion in the county's financial statements.

Significant Deficiency – Material Weakness

Liability for postemployment benefits not recorded/note disclosures for postemployment benefits not reported.

10-2. Finding

Stone County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the county's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined benefit health care plan. GASB Statement No. 45 requires the county to report on an accrual basis the liability associated with other postemployment benefits. The county does not issue a publicly available financial report for its health insurance plan. Also, the county has not recorded a liability for other postemployment benefits nor has the county reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the governmental activities, business-type activities and Correctional Facility Fund.

Recommendation

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Board of Supervisors' Response

Management will consider hiring an independent insurance actuary to help comply with this finding.

Significant Deficiency – Material Weakness

County did not prepare its own financial statements.

10-3. Finding

A critical aspect of effective financial management is the preparation of accurate financial statements. As reported in the prior three years' audit reports, management did not have personnel who possessed the necessary training to prepare financial statements in accordance with generally accepted accounting principles. Stone County's accounting records are maintained on the cash basis and the auditors assisted the county in the preparation of accrual entries and the primary government financial statements. However, the County has made all management decisions including approving accrual entries, designating an individual with a basic understanding of the financial statements and related note disclosures to oversee the financial statement preparation; evaluating the adequacy and results of the services performed and accepting responsibility for the results of the services.

Recommendation

The Board of Supervisors should establish adequate controls and procedures to ensure that financial statements and note disclosures are prepared in accordance with generally accepted accounting principles.

Board of Supervisors' Response

Management will consider hiring an independent accounting firm to prepare the county's financial statements prior to being audited by the Office of the State Auditor.

Significant Deficiency – Material Weakness
Material Noncompliance

County signed warrants without sufficient money.

10-4. Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior three years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2010, the following funds had negative cash balances:

- a. General County Fund - \$514,666
- b. Planning/Code Fund - \$546
- c. Perkinston Elementary Shelter Fund - \$29,259
- d. Stone Elementary Shelter Fund - \$10,926
- e. Library/E911 Office Fund - \$7,815
- f. Stone County Middle School Shelter Fund - \$71,690
- g. Stone County High School Shelter Fund - \$28,724
- h. Project Road Shelter Fund - \$27,523
- i. Chancery Clerk's Payroll Fund - \$679

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Failure to have sufficient cash balances in county funds prior to writing checks on these funds resulted in other funds' cash being used for purposes other than their intended purpose. These types of transactions could result in the Board of Supervisors being held personally liable for such amounts.

Recommendation

The Board of Supervisors should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

Board of Supervisors' Response

Shortfall in Chancery Clerk Payroll Fund was a timing issue, and was corrected with the next docket. Shelter funds, Library/E911 fund balances fluctuate as projects continue. Advances and reimbursements are made to the county by the Mississippi Development Authority and FEMA/MEMA on a continuing basis. Shortfalls in the General Fund and Planning/Code Fund will need to be corrected with reallocation of existing millage, or addition of millage.

Significant Deficiency – Material Weakness

Deficiencies exist in recording of transactions.

10-5. Finding

An effective system of internal control over the recording of transactions should include the recording of all transactions and the proper classification of revenues and expenditures/expenses. We noted the following deficiencies in the recording of transactions:

- a. Some transactions associated with the Correctional Facility Fund were not recorded in the county's accounting records. A transfer in for \$500,000 was not recorded in the accounting records resulting in the cash account being understated by this amount. Also, another transfer in of \$44,242 to pay debt service payments was not recorded resulting in principal payments and interest expense being understated by \$30,000 and \$14,242, respectively, and the outstanding bonds being overstated by \$30,000.
- b. Revenues and expenditures totaling \$445,023 for the construction of the E-911 facility were recorded as federal grants restricted for culture and recreation and as culture and recreation expenditures instead of public safety revenues and expenditures resulting in incorrect classification of revenues and expenditures/expenses in the financial statements.

For the items noted above, adjustments were proposed by the auditor and made to the financial statements with management's approval.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that all transactions are recorded in the county's accounting records and that all revenues and expenditures are properly classified.

Board of Supervisors' Response

Management concurs with OSA finding 10-5. All findings have been corrected per the recommendation of OSA Auditors.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Significant Deficiency – Material Weakness Material Noncompliance

Tax anticipation notes not repaid by required date.

10-6. Finding

Section 19-9-27, Miss. Code Ann. (1972), authorizes the Board of Supervisors to borrow money in anticipation of taxes for the purpose of defraying expenses of the county and to issue negotiable notes of the county, therefore, to mature not later than April 1 of the year succeeding the year in which they are issued. For the payment of such loan, the Board of Supervisors shall either pledge the levy of a special tax each year sufficient to pay the amount borrowed for use that year, with interest, or shall pledge that such notes shall be paid out of the first money collected from taxes for the year in which they are issued. In October 2009, the Board of Supervisors issued \$600,045 in tax anticipation notes with a maturity date of April 2010 to be repaid out of the first money collected from taxes. However, \$300,045 of these notes was not repaid by the April maturity date as required by law. The Board of Supervisors renewed this amount and extended the maturity date until October, 2010. The Board of Supervisors also issued an additional \$750,105 tax anticipation note in July, 2010. There is no authority for the Board of Supervisors to extend the maturity date of a tax anticipation loan beyond the April 1 maturity date established by law. Failure to repay tax anticipation notes authorized under this code section by the April 1 maturity date, resulted in the county actually issuing long term debt that is not authorized for these purposes.

Recommendation

The Board of Supervisors should ensure that all tax anticipation notes issued under the authority of this code section are repaid out of the first money collected from taxes for the year in which they are issued in order to comply with the April 1st maturity date established by law.

Board of Supervisors' Response

The Board will comply with the recommendation of the Office of the State Auditor.

Significant Deficiency – Material Weakness Material Noncompliance

Road bond tax levy used to pay capital lease obligations.

10-7. Finding

Section 65-15-15, Miss. Code Ann. (1972), authorizes the Board of Supervisors to levy a special tax to be used exclusively in paying the interest on road bonds and in providing a sinking fund for their redemption. The Board of Supervisors levied a 1.26 mill tax under the authority of this code section. However, the county has not issued any road bonds. The proceeds of this levy were used to make principal and interest payments on capital lease obligations. There is no authority to levy a tax for the repayment of capital lease obligations. Failure to use tax levy proceeds for the purposes authorized by law results in a diversion of funds.

Recommendation

The Board of Supervisors should only levy for road bonds under this section when the county actually has issued road bonds and should ensure that all tax levy proceeds are expended as authorized by law.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

Board of Supervisors' Response

The 1.26 mills levied for road bonds will be moved to the Road/Bridge Fund for paying related debt.

Significant Deficiency – Material Weakness

Processing of payroll and other payroll duties not adequately segregated.

10-8. Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior two years' audit reports, the maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weakness in the payroll function:

- a. The comptroller, who maintains the general ledger, also prepares the payroll and distributes some of the payroll checks.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W2's are returned directly to the comptroller.

Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that proper segregation of duties exists with respect to control of the general ledger, the processing of payroll and other payroll duties.

Board of Supervisors' Response

Management will attempt to segregate payroll duties, but is limited by available funds to hire additional personnel.

Significant Deficiency – Material Weakness

Cash collections and general ledger maintenance functions not adequately segregated.

10-9. Finding

An effective system of internal controls should include an adequate segregation of duties. As reported in the prior two years' audit reports, cash collections and general ledger maintenance functions are not adequately segregated for effective internal control. The comptroller receipts funds, prepares all deposits, reconciles the county's bank statements and posts the receipts to the general ledger. Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement effective internal control policies that allow for the proper segregation of duties for the cash collection and general ledger maintenance functions.

Board of Supervisors' Response

Management will attempt to segregate cash collection duties, but is limited by available funds to hire additional personnel.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Circuit Clerk.

Significant Deficiency

Bank statements not reconciled to cash journals.

10-10. Finding

An effective system of internal control should include maintaining cash journals and reconciling the bank statements to the cash journals. The bank statements were not reconciled to the cash journals. Failure to reconcile the bank statements to the cash journals could result in the loss of public funds.

Recommendation

The Circuit Clerk should ensure that the bank statements are reconciled to the cash journals.

Circuit Clerk's Response

I will comply; closer attention will be paid to bank reconciliations.

Inventory Control Clerk.

Significant Deficiency – Material Weakness

Inadequate controls over the inventory control system.

10-11. Finding

An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior year's audit report, deficiencies were noted in capital assets records:

- a. A digital copier purchased on March 19, 2010 for \$5,306 was not added to inventory.
- b. A 2010 Freightliner tanker truck, was erroneously added to inventory at a cost of \$2,452,312, instead of the correct cost of \$245,232.
- c. A 2011 Ford F350 pickup, was erroneously classified as mobile equipment but should have been classified as a lease purchase.
- d. Some buildings were not being depreciated.
- e. The construction of the E-911 facility was recorded in error in buildings instead of construction in progress. The amount recorded for this facility was also overstated by \$98,418.
- f. The construction in progress for the library was understated by \$21,223.

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

The failure to properly maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response

All findings have been corrected.

Tax Assessor-Collector.

Significant Deficiency – Material Weakness

Controls over the tax collection and settlement system should be established.

10-12. Finding

Section 27-33-75, Miss. Code Ann. (1972), specifies that one-half (1/2) of the exemption on ad valorem taxes allowed to qualified homeowners shall be from taxes levied for school district purposes and one-half (1/2) shall be from taxes levied for county general fund purposes. The Tax Assessor-Collector allowed this exemption to qualified homeowners when collecting ad valorem taxes as specified by law. However, when the Tax Assessor-Collector settled these ad valorem taxes, he withheld the entire amount of the exemption from the county general fund. This error resulted from incorrect parameters being set up in the tax collection and settlement system of the county at the beginning of the fiscal year. The Tax Assessor-Collector's system of internal controls was not sufficient to detect this problem in a timely manner. Failure to input the proper information in the tax collection and settlement system at the beginning of the fiscal year resulted in the Tax Assessor-Collector over settling \$294,771 to the Stone County School District. An adjustment was proposed by the auditor and made by the county to record a receivable from the school district for this over settlement of ad valorem taxes.

Recommendation

The Tax Assessor-Collector should establish adequate controls over the tax collection and settlement system to ensure that the proper information is entered into the system each year in order to correctly collect and settle ad valorem taxes. He should also either seek a refund from the Stone County School District for \$294,771 or withhold this amount from future settlements of the school district's taxes.

Tax Assessor-Collector's Response

I have always set up the collection and settlement parameters personally and will continue to do so. My bookkeeper will review all parameters before the collection and settlement process begins each year. After monthly settlements have been processed by the bookkeepers, I will personally review and sign off before settlements are delivered. A refund was received from the Stone County School District in the amount of \$294,771 and deposited in the county's general fund on December 16th, 2010.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.